

INTERNAL REVENUE SERVICE
District Director

Department of the Treasury

Date: MAY 12 1999

Employer Identification Number:
[REDACTED]

Case Number:
[REDACTED]

Person to Contact:
[REDACTED]

Telephone Number:
[REDACTED]

Refer Reply To:
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
Dear Applicant:

We have considered your application for exemption from Federal income tax as an organization described in section 501(c)(4) of the Internal Revenue Code.

FACTS

The information submitted discloses that the organization was incorporated under the nonprofit laws of [REDACTED]

Tax exempt status was granted under section 501(c)(7) of the Internal Revenue Code (I.R.C.) in [REDACTED]

An examination of the [REDACTED] tax year end resulted in the proposed revocation of tax exempt status. The Appeals Officer affirmed the organization's violation of I.R.C. 501(c)(7) income limitations and secured an executed Form 6018, "Consent to Proposed Adverse Action" on August 29, 1997. The revocation of exemption was effective [REDACTED].

The organization submitted an application concurrently with the Appeals action to apply for tax exempt status under I.R.C. 501(c)(4).

The Articles of Incorporation were amended on [REDACTED] organizing the corporation as an I.R.C. 501(c)(4) social welfare organization. The purposes of the organization are listed as "including but not limited to promoting the interest of the general public in the historical significance, preservation, and restoration of the [REDACTED] automobiles in their original likeness through such activities as: (a) creating, wearing and studying period attire and clothing relevant to the [REDACTED] and (b) publishing and disseminating a monthly member publication containing educational information about the [REDACTED] and the [REDACTED] activities."

The organization bylaws indicate the purpose of the organization as:
(1) to serve as a medium of exchange of ideas, information and parts for admirers of [REDACTED], and to aid them in their efforts to restore and preserve the car in its original likeness; and.

(2) to unite in a central organization all owners of [REDACTED] who are interested in restoring and maintaining the automobile in a manner to attract prestige and respect within the community and it shall further be the purpose of this club to help these owners to become better acquainted, encourage and maintain among it's membership the spirit of good fellowship, sociality and fairplay, through sponsored activities including the use of [REDACTED] and family participation.

The club engages in the following activities:

- Monthly member meetings are held. Club business and special interest topics on [REDACTED] history, restoration, etc are presented.
- A monthly newsletter is sent to members. The newsletter contains club business and special interest topics.
- Members participate in the preservation and restoration of [REDACTED] automobiles (member and non-member owned).
- An annual swap meet is held.
- The club sponsors tours and rallies. Clothing during the [REDACTED] era is sometimes worn.
- An annual Christmas party for members is held.
- Members produce and sell memorabilia.

The current membership in the club is approximately [REDACTED] families.

ISSUE

Does the organization qualify for exemption from Federal income tax as an organization described in section 501(c)(4) of the Internal Revenue Code?

LAW

Section 501(c)(4) of the Internal Revenue Code describes certain organizations exempt from income tax under section 501(a) and reads in part as follows:

"(A) Civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare,...

(B) Subparagraph (A) shall not apply to an entity unless no part of the net earnings of such entity inures to the benefit of any private shareholder or individual."

Income Tax Regulation section 1.501(c)(4)-1(a)(2)(i) states that an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterments and social improvements.

Income Tax Regulation section 1.501(c)(4)-1(a)(2)(ii) states that an organization is not operated primarily for social welfare if its primary activity is operating a social club for the benefit, pleasure, or recreation of its members.

In United States v. Pickwick Electric Membership Corp., 158 F. 2d 272 (6 Cir. 1946), the court stated that a civic organization is described as embodying "the ideas of citizens of a community cooperating to promote the common good and general welfare of the community."

In Eric Endowment v. United States, 316 F. 2d 151 (1963), the court attempted to define a civic organization and concluded that a civic organization "must be a community movement designed to accomplish community ends."

ANALYSIS

The preceding Code section, Regulation sections and court cases describe the criteria under which an organization may be exempt under section 501(c)(4) of the Internal Revenue Code. They also describe the basis for which organizations were denied exemption because they were not organized and operated exclusively for section 501(c)(4) purposes.

The majority of organization activities appear to benefit club members. While the member meetings, newsletters, tours and rallies, and preservation/restoration activities are said to provide education to the general public, the primary benefit is to the club members which is characteristic of operating a social club.

The newsletters are sent to members and other car clubs. Club business is the primary content. Member meetings are said to be open to the public, however notification of the meeting date is through the newsletter to members. It is not likely that general public attendance at these meetings is substantial.

The tours and rallies include a "██████████" where participants make scheduled stops where a ██████████ is received by ██████████ and the ██████████ receives a prize. This is an entertainment activity as is a similar "██████████". Likewise, an annual ██████████ parade and an annual picnic where the cars are exhibited and historical dress may be worn does not constitute the promotion of social welfare.

Any work done on preserving/restoring [REDACTED] of members or nonmembers alike constitutes more of a hobby club/social club activity than a civic organization.

An annual swap meet is also held. The purpose of said swap meet is to provide [REDACTED] with the opportunity to acquire parts for preservation/restoration of their automobiles. Typically, members rent approximately 50% of the available booths. The remaining booths are rented by various individuals/organizations exhibiting a variety of items such as furniture, old and new tools, era clothing, old and new toys, new and used replacement parts, glass, etc. This activity does not appear to bring about civic betterments and social improvements required under I.R.C. 501(c)(4), but it operates more as a convenience for club members and help to support the organization through income earned.

Conclusion

Therefore, based on the information submitted, we have concluded that your organization is not entitled to exemption from Federal income tax as an organization described in Code section 501(c)(4).

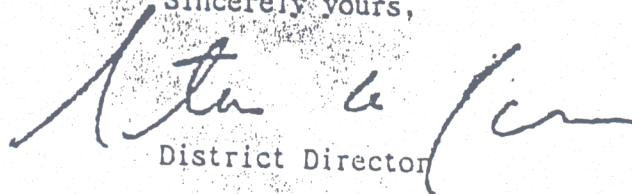
The organization has failed to demonstrate that its' organization and operation promotes the common good and general welfare of the people of the community (Regulations 1.501(c)(4)-1(a)(2)(i)). Court cases such as United States v. Pickwick Electric Membership Corp state that civic organizations embody "the ideas of citizens of a community cooperating to promote the common good and general welfare of the community; and Eric Endowment v. United States instills the idea that civic organizations "must be a community movement designed to accomplish community ends." The activities benefitting club members violate Regulation section 1.501(c)(4)-1(a)(2)(ii) which states that an organization is not operated primarily for social welfare if its primary activity is operating a social club for the benefit, pleasure, or recreation of members.

If you are in agreement with this proposed determination, we request that you sign and return the enclosed Form 6018. Please note the instructions for signing on the reverse side of this form.

If you are not in agreement with this proposed determination, we recommend that you request a hearing with our office of Regional Director of Appeals. Your request for a hearing should include a written appeal giving the facts, law and any other information to support your position, as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a hearing. The hearing may be held at the office of Regional Director of Appeals, or if you request, at a mutually convenient District Office.

If we do not hear from you within 30 days from the date of this letter, and you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies and will then become our final determination. Section 7428(b)(2) of the Internal Revenue Code provides in part that, "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Claims Court, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

Sincerely yours,



District Director

Enclosures: Form 6018
Publication 892
Notice 1214